**Tax(ing) terms:) –NOTE these are not reflective of the exact current rates.**

**Marginal Tax rate**- the rate that you are taxed on your next dollar. In a **progressive tax system** the higher your income the higher your marginal tax rate. The 1st dollar is taxed the same, but the last dollar of a high income earner is taxed at a higher rate than a low income worker. In a **regressive tax system**, people with lower income pay higher rates of taxes.

(EG- Income is $50,000, Marginal tax rates, 0 on 1st $5,000, 10% on income btw 5,001 to 25,000, 20% 25,001 to 50,000, 30% income over 50,000---Income tax $7,000. If Income is 100,000, Income Tax $22,000)

**Average Tax Rate**- simply dividing your total income tax by your income—average in US is 13% (for the above example the average tax rate would be 14% and 22% respectively)

**Effective Tax Rate**- totaling up all the taxes you pay, Federal Income Tax, payroll Tax, State income tax, Sales Tax, Property taxes and license fees (in other words all the money that you provide Federal, State and Local Governments) and dividing it by your total income (EG. Income 100,000, Fed income tax 22,000, State income tax 4500, Sales tax paid 1200, property taxes, 2500, payroll tax $7500- Total tax $37,700. Effective Tax rate 37.7%)

**Income Tax**- Federal- based on brackets- progressive rate, currently appr. 40% is the highest bracket

**Income Tax**- State- similar to Federal tax, progressive, highest rate in Ct, is 6%

*NOTE: BEFORE DETERMINING AN INCOME TAX, ONE HAS TO DETERMINE THE “TAXABLE INCOME”. TAXABLE INCOME IS YOUR GROSS INCOME LESS ANY DEDUCTIONS OR CREDITS YOU MAY HAVE. THERE ARE LOTS DEDUCTIONS/CREDITS. FOR OUR PURPOSES WE’LL JUST HAVE ONE—THE INDIVIDUAL (AND SPOUSE) AND ANY CHILDREN. THE TAXABLE INCOME IS OFTEN CALLED YOUR ADJUSTED GROSS INCOME.*

**Payroll Tax**- Currently the rate is a fixed percentage of income, appr. 7.5% for employer and 7.5% for employee- self employed pay 14%. Money is paid into the Social Security and Medicare programs- entitlement programs- (ie. You get it if you meet certain criteria)- The money paid in is supposed to go to a trust fund which will later pay the money back to those same people. Currently the Trust Fund for Social Security and Medicare are positive, however, when large sections of baby boomers (1946-1964) retire the trust fund will begin to deplete. Tax is based off your first $100,000 of income

(EG- employed and earning $50,000, payroll tax out of your pocket of $3,750. If you earn $150,000, payroll tax out of your pocket is $7500 or approx.. 5%)

**Sales Tax**- Tax at point of purchase, generally goes to State Government- in Ct. its 6%, some goods are excluded (necessities) from the tax. This is the primary funding method for most State Governments

**Property Tax**- Tax based on the value of your home, generally a local government tax, depends on needs of the community. This is the primary funding method for most local Governments. Tax is yearly. Simplifying, a house with a fair market value of $100,000 and a tax rate of $20 per $1000 of value would have a total yearly tax of $2000. In Connecticut you also pay a property tax on your vehicles (automobiles, boats…not bicycles!)

**License fees**- some occupations etc…require an annual fee- State fee.

**Deductions**: Most tax codes allow you to deduct from your income an amount for yourself and each individual whom you take care of. If the deduction is $5,000, your income is $50,000 and you have a spouse and 2 children, deduct 4 x $5,000 from your income. Income tax liability would be based on $30,000 not $50,000 (in the example above the Federal Income tax would drop from $9,500 to $2,750) Payroll tax is not effected!!!